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This Handbook has been revised to incorporate all changes in Arizona's Budget Reform Act. This latest version of the *Strategic Planning and Performance Measurement Handbook* has been revised and edited by the following members of the Strategic Planning Advisory Committee:

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INTRODUCTION

- Executive Summary
- Budget Reform Overview

EXECUTIVE SUMMARY

Arizona's Strategic Planning Model

Strategic planning *is* managing for results. It is a participatory process requiring the full support of the agency director, as well as the involvement of employees at all levels in the agency. Strategic planning considers the needs and expectations of customers, stakeholders and policy makers in defining agency missions, goals, and performance measures. A strategic plan guides agencies by asking and answering five basic questions:

- Where are we now?
- Where do we want to be?
- How do we measure our progress?
- How do we get there?
- How do we track our progress?

These questions and the corresponding strategic planning components make up the recommended State model that appears in this document. Since this Handbook was first published, the State has become more sophisticated and the basic model has evolved slightly to incorporate this growth.

For example, the section on developing performance measures has been expanded to include benchmarking. Additionally, performance measures, which naturally evolve from well-developed objectives, now follows the section on developing objectives. Finally, the section on the development of action plans has been moved to follow the development of performance measures.

How to Use This Handbook

This Handbook is intended to serve as a reference document for Arizona's state agencies. The Strategic Planning Advisory Committee sought to create a user-friendly guide with non-technical language, numerous examples and helpful checklists. In addition, to help agencies apply the concepts of strategic planning, litmus tests have been developed and are included in the forms section of the Handbook. Finally, where appropriate, you will find helpful hints for small agencies.

BUDGET REFORM OVERVIEW

The *Managing for Results* Handbook has been developed to assist agencies in complying with the requirements of the Arizona Budget Reform Act.

Budget Reform

The goal of Arizona's budget reform is to improve State agencies' ability to "manage for results." With the passage of Chapter 210, Laws 1997, Arizona's three-year budget reform pilot became permanent law. Other changes that came about as a result of the passage of this legislation include:

- **Strategic plans and Master List.** Agency strategic plans and Master List information will be submitted to Governor's Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC) Staff on April 1 of *every even-numbered year*. Additionally, beginning in 1998, the Master List will include the goals and key performance measures from the agency strategic plans.
- **Program Authorization Reviews (PAR).** No agency self-assessments will be submitted in April 1998. Instead, beginning in 1999, PARs will be submitted on April 1 of every odd-numbered year. Legislative reviews will be conducted every even-numbered year. Additionally, Joint Legislative PAR Committees will evaluate the PAR findings included in the joint reports written by OSPB and JLBC Staff. The Committees will also be responsible for making recommendations about the PAR'd programs and preparing and introducing any legislation necessary to implement the recommendations.
- **Budgets.** All agencies will move to a budget format that reflects the program structure in the *Master List of State Government Programs*. The change will be phased in between FY 2000 and FY 2006. Additionally, *all* agencies will be on a biennial cycle beginning with the September 1, 1998 submittal.

A brief summary of the key elements of the Arizona budget reform legislation follows.

Strategic Plans

A strategic plan is a practical, action-oriented guide based on an examination of internal and external factors, which directs goal setting and resource allocation to achieve meaningful results over time. Strategic plans incorporate the key functions of agencies, including process improvement or quality efforts, information technology and human resources and budgeting.

Arizona's budget reform legislation requires all agencies to develop strategic plans for the agency, and for each program and subprogram. Agency-wide goals define the long-term direction; represent overarching issues, rather than a compendium of the normal activities of the agency; and address strategic issues, which, if not addressed, could cause problems for the organization. By contrast, goals at the program level will normally represent a combination of primary or key activities of the program, as well as the program's contribution to identified strategic issues. Finally, goals at the subprogram level will represent mostly key activities. However, if a subprogram has a direct role in meeting a strategic issue, the corresponding activities should be included.

The strategic plans that are developed by agencies are used as the basis for other documents required by budget reform. For example, agencies are required to submit the full agency strategic plan to OSPB. Beginning April 1998, the agency goals and key performance measures will be included in the *Master List of State Government Programs*. Additionally, many of the goals and performance measures developed for the program and subprogram strategic plans are used in the *Master List of State Government Programs*.

Master List of State Agency Programs and Subprograms

Budget reform legislation requires OSPB to compile a master list of all State government programs. The first comprehensive inventory, which was presented to the Joint Legislative Budget Committee in January 1994, identified a total of 444 separate programs and 823 subprograms in 99 budget units (agencies) in all three branches of State government.

However, agency program hierarchies continue to be refined. For example, in 1996, 389 programs and 694 subprograms were identified. Updating the program list is a biennial requirement of the legislation, with publication in even-numbered calendar years.

Currently, all agencies must submit master list information April 1 in even-numbered years.

Program Authorization Review

Another component of the budget reform legislation is the Program Authorization Review (PAR). The PARs are conducted in three phases: an Agency Self-Assessment (program evaluation); the OSPB and JLBC Staff Joint Report; and a recommendation by the legislative Joint PAR Committees to Retain, Eliminate or Modify (REM) the program or subprogram.

In the Self-Assessment, the agency responds to specific questions about the program based upon: background information, program funding, strategic planning, performance measures, performance results, and other issues. Agencies are required to submit the evaluation, along with the relevant program strategic plan, to OSPB and the JLBC Staff on April 1 of each odd-numbered year.

Next, OSPB and the JLBC staff review the Self-Assessment, and may conduct interviews and examine other agency documents in order to complete their findings. By October 15 of each odd-numbered year, the two staffs produce a joint report of their findings.

Finally, Joint Legislative PAR Committees have been formed. These Committees are organized into four topical areas: criminal justice and transportation, economic development, education and natural resources, and health and welfare. The Committees will hold public hearings, which will begin with a presentation by the OSPB and JLBC Staff analysts, followed by agency responses and public comment.

By December 15, of every even-numbered year, the Committees will recommend whether to retain, eliminate or modify funding and related statutory references for the programs undergoing PAR. The Committees' recommendations will be made to the Governor, the President of the Senate, and the Speaker of the House of Representatives. The Committees will also oversee the preparation of any proposed legislation to implement the recommendations and are responsible for the introduction of this legislation.

Budgets

Beginning with the FY 2000 – FY 2001 biennium, all agency budgets will be appropriated for two years, with each year itemized separately. Agencies are required to include a one-page summary of key performance measures in their budget requests. Program budgeting will be phased in for all agencies between FY 2000 and FY 2006.

Administrative Costs

Beginning in FY 2000, agency budget requests must separate the administrative costs from the direct costs of providing public services. However, the definition of administrative costs needs further clarification. In addition, this requirement may necessitate revisions to agency accounting hierarchies in the future to track these administrative costs.

Conclusion

Budget reform requirements are intended to make government more understandable to the public, improve productivity and customer service, and strengthen accountability for results or outcomes. Implementation of the budget reform requirements is now well under way. Although originally written as a pilot, Chapter 210, Laws 1997 has made budget reform a permanent part of Arizona's strategic planning landscape.

However, this process is evolutionary and continues to challenge both agency managers and policy makers. OSPB has attempted to proceed at a pace that stretches State government, while building the institutional capacity to enable agencies to truly "manage for results."